

Step	Calculating Compensatory Fees
2	<p>The compensatory fee for each mortgage loan will be calculated using</p> <ul style="list-style-type: none"> • the UPB of the mortgage loan, • the applicable PTR, and • the number of days the mortgage loan exceeded the allowable time frame.

Note: A compensatory fee bill will be issued only for those servicers identified as having a chronic issue in meeting foreclosure time frames and only after the completion of a performance improvement plan. The total compensatory fee bill amount will be adjusted based on the results of the mortgage loan level review as described in [A2-4-01, Quality Control Reviews](#) and the servicer's implementation of remediation under the performance improvement plan as described in [A1-1-03, Evaluating a Servicer's Performance](#).

See [F-2-03, Compensatory Fee Calculation Examples](#) for examples that illustrate how compensatory fees are calculated.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SVC-2019-01	February 13, 2019

Subpart A2, Getting Started with Fannie Mae

Chapter A2-1, Servicer Duties and Responsibilities

Introduction

This chapter contains information on servicer duties and responsibilities.

A2-1-01, General Servicer Duties and Responsibilities (04/12/2023)

Introduction

This topic contains the following:

- [Overview of General Servicer Duties and Responsibilities](#)
- [Maintaining Fair Lending Data](#)
- [Additional Servicer Duties and Responsibilities for Certain Servicers](#)
- [Processing of Funds](#)
- [Delinquency Advances](#)
- [Servicing Advances](#)

Overview of General Servicer Duties and Responsibilities

The servicer services Fannie Mae mortgage loans as an independent contractor and not as an agent, assignee, or representative of Fannie Mae. Most of the policies and standards described in the *Selling and Servicing Guides* are intended to set forth the broad parameters under which the servicer must exercise sound and professional judgment as a mortgage loan servicer in the performance of its duties. As a result, in most instances Fannie Mae has not set forth absolute requirements because it believes that the servicer needs to maintain the discretion to apply appropriate judgment in dealing with borrowers and mortgage loans on a case by case basis, consistent with Fannie Mae's servicing policies. Further, even where Fannie Mae has set forth a "requirement," it has not enumerated specifically how the servicer should implement it. Fannie Mae generally will not object to the practices the servicer regularly applies so long as they are carried out in accordance with established written procedures that are consistent with Fannie Mae's servicing policies. The servicer may apply practices used on its own portfolio of mortgage loans to Fannie Mae mortgage loans as long as the practices are in accordance with the servicer's established written procedures and are consistent with Fannie Mae's servicing policies. As a general matter, the servicer must have sufficient staffing levels, technology, and properly trained staff (including third-party providers of its outsourced servicing activities and technology) to

- carry out all aspects of their servicing duties in accordance with the timing requirements of the *Servicing Guide*,
- maintain acceptable performance standards, and
- provide borrowers with assistance when it is requested.

Furthermore, the servicer (or master servicer) must

- require the subservicer/outsourcer vendor to have policies and procedures for the contracted servicing activities, including for the orderly transfer of any contracted critical servicing activities upon a termination or expiration of any applicable contract;
- ensure no disruption of service, service levels, or offerings from any subservicer or outsourcer vendor which may have a material adverse effect on either the borrower or the critical servicing functions for mortgage loans serviced for Fannie Mae;

- conduct audits and QC reviews on subservicer/outsource vendor for contracted servicing activities, including services performed outside the United States, to ensure compliance with Fannie Mae requirements; and
- conduct operational assessments and reviews that measure the subservicer/outsource vendor performance in various departments.

The servicer must have effective processes to promptly address borrower inquiries (relating to both current and delinquent mortgage loans) and provide timely payoff quotes and refunds of escrow deposits after payoff. To the extent consistent with the borrower's mortgage loan documents and applicable laws and regulations, Fannie Mae encourages the servicer to adopt servicing practices that allow for an appropriate level of discretion to take into account the facts of a particular mortgage loan and the circumstances of the borrower.

In performing the services and duties incident to the servicing of mortgage loans, the servicer must take whatever action necessary to protect the beneficial interest of Fannie Mae and an MBS trust in the security property as long as it is authorized to do so by the terms of the mortgage loan. Among other things, this generally includes, but is not limited to:

- complying with laws (see *Selling Guide*, A3-2-01, Compliance With Laws);
- monitoring and paying property taxes, HOA assessments, and related expenses to avoid possible tax liens or other liens that may take priority over Fannie Mae's mortgage lien (see [B-1-01, Administering an Escrow Account and Paying Expenses](#) for additional information);
- maintaining adequate property insurance to cover damage from unforeseen casualty losses;
- establishing and maintaining accounts for the deposit of borrowers' funds;
- responding to borrowers' inquiries (relating to both current and delinquent mortgage loans) about the terms of their mortgage loans or the actions the servicer has (or has not) taken in its servicing of the mortgage loans;
- making periodic property inspections to ensure that the physical condition of the property is satisfactory, that there are no apparent hazardous conditions (such as the presence of hazardous wastes or toxic substances) affecting the property, and that there are no apparent violations of applicable law that might result in a seizure or forfeiture of the property, and to determine and initiate the needed responsive actions (see [D2-2-10, Requirements for Performing Property Inspections](#) and [E-3.3-03, Inspecting Properties Prior to Foreclosure Sale](#) for additional information);
- maintaining accurate mortgage loan servicing and accounting records, including proper coding of mortgage loans to ensure that proper MBS mortgage loan servicing guidelines are followed;
- resolving discrepancies identified between the servicer's records and the data attributes submitted to Fannie at the time of mortgage loan delivery by following the post-purchase adjustment process (see *Selling Guide* C1-2-02, Loan Data and Documentation Delivery Requirements);
- collecting and promptly remitting any and all amounts due Fannie Mae;
- taking prompt and appropriate action to resolve or prevent a delinquency, including any action necessary to liquidate a defaulted mortgage loan (see Parts D and E for additional information);
- performing certain administrative functions related to an acquired property when Fannie Mae so requests (see [E-4.3-01, Managing the Property Post-Foreclosure Sale](#) for additional information);
- advancing reasonable amounts, if necessary, to cover expenses arising in connection with any of the duties described above; and

- providing timely payoff quotes and refunds of escrow deposits after payoff.

The servicer must use good judgment and take the actions described in the following table.

✓	The servicer must...
	Exercise sound professional judgment as the mortgage loan servicer in the performance of its duties.
	Use its discretion to apply appropriate judgment in dealing with borrowers and mortgage loans on a case-by-case basis, consistent with Fannie Mae's servicing policies.
	Perform specific administrative responsibilities and business obligations in the overall conduct of its mortgage loan operations as described in the <i>Servicing Guide</i> .
	Service all mortgage loans in a sound, businesslike manner.
	Protect against fraud, misrepresentation, or negligence by any parties involved in the mortgage loan servicing process.
	Have adequate controls and QC procedures in place.

Fannie Mae's basic servicing policies do not change on the basis of its lien position.

Maintaining Fair Lending Data

For mortgage loans originated on or after March 1, 2023, the servicer must maintain the following fair lending data elements in a queryable format for each mortgage loan if obtained during the origination process:

- race of borrower(s),
- ethnicity of borrower(s),
- age of borrower(s),
- gender of borrower(s), and
- preferred language of borrower(s).

Note: In the event of a future transfer of ownership or assumption of the mortgage loan, the servicer is authorized, but not required, to update these data elements.

Additional Servicer Duties and Responsibilities for Certain Servicers

The following provisions apply to all master servicers and subservicers that own and/or service a total portfolio size greater than or equal to 20,000 mortgage loans at any time during a calendar year.

To the extent the servicer relies on any third-party technology provider for the performance of critical servicing functions, the servicer must provide:

- not less than 180 days' prior written notice to Fannie Mae of its intent to change such third-party technology provider, together with, upon Fannie Mae's written request, the servicer's transition plan for such change; and
- within 5 business days after its occurrence, written notice to Fannie Mae of any termination, breach, or impairment of rights by servicer or the technology provider of or under such contract.

These obligations are in addition to, not in lieu of, the servicer's obligations to notify Fannie Mae under *Selling Guide* A4-1-01, Maintaining Seller/Servicer Eligibility.

Critical servicing functions include services and processes that directly impact the servicing of a mortgage loan (e.g., mortgage loan payment processing, remitting, accounting, and reporting, etc.), providing servicing solutions to a borrower in need, or the timely and accurate reporting to Fannie Mae or other entities.

Such transition plan must describe the steps that the servicer is undertaking to ensure an orderly transfer of critical servicing functions to a new technology service provider so that there is no interruption to borrowers and Fannie Mae and account for continuity of technology service from the original third-party technology service provider.

In addition, in all contracts with third-party technology providers for critical servicing functions, the servicer must ensure that

- Fannie Mae is provided within five business days with copies of any termination, notice of default, breach or non-performance or any notice of impairment of rights, in each case sent to the servicer; and
- such third-party technology provider acknowledges Fannie Mae's ownership interest in the Fannie Mae mortgage loans (including all associated files and data) and agrees to reasonably cooperate with any transfer of such mortgage loans to a new servicer, technology service provider or servicing platform, as may be required by or directed by Fannie Mae, upon payment of reasonable and customary transition fees.

Processing of Funds

The servicer's authorization to receive, handle, or dispose of funds representing mortgage loan payments (for principal, interest, and tax and insurance escrow deposits) or of other funds or assets related to the mortgage loans it services for Fannie Mae or to the properties secured by those mortgage loans is limited to those servicing actions that are expressly authorized in the *Servicing Guide* or in the *Lender Contract*.

Because these funds and assets are owned by Fannie Mae and other parties (such as the borrower, a participating seller/servicer, or an MBS holder, if applicable), the servicer, in its handling of these funds, is acting on behalf of and as a fiduciary for, Fannie Mae and other parties, as their respective interests may appear; the servicer is not acting as a debtor of Fannie Mae.

If the servicer takes any action with respect to these funds or assets that is not expressly authorized, such as the withdrawal or retention of mortgage loan payment funds Fannie Mae is due as an offset against any claim the servicer may have against Fannie Mae, the servicer is not only violating the provisions of the *Servicing Guide* and the *Lender Contract*, but also is violating the rights of any and all other parties that have a beneficial interest in the funds. Such action is therefore prohibited and will be considered a breach of the *Lender Contract*.

Delinquency Advances

Because the servicer of scheduled/actual and scheduled/scheduled remittance type mortgage loans generally must remit funds to Fannie Mae when they are scheduled to be remitted rather than when they are actually collected, there may be times when the funds collected are not sufficient to make the servicer's required payment. In those cases, the servicer must advance its own funds to cover funds due for delinquent mortgage loans if the funds have not been collected. Funds advanced for this purpose are referred to as "delinquency advances." See [C-3-01, Responsibilities Related to Remitting P&I Funds to Fannie Mae](#) for additional requirements related to delinquency advances including details of when the servicer must advance principal and interest depending on the mortgage loan type and servicing option.

The servicer must make a delinquency advance if the funds on deposit in the servicer's P&I custodial account on the day the monthly remittance is due to Fannie Mae are less than the amount of the required monthly remittance. To avoid using its own funds, the servicer is authorized to use funds it has on hand for any prepaid P&I installments, principal curtailments, and payoffs to offset payment (or interest) shortfalls that occur as the result of mortgage loan delinquencies. The servicer must maintain monthly records of all P&I advances for delinquent mortgage loans (including those in the Stop Delinquency Advance process) and perform appropriate monthly reconciliation activities.

Regardless of the mortgage loan type or applicable servicing option, the servicer may reimburse itself for its delinquency advances from borrower collections that are subsequently deposited to the P&I custodial account.

Servicing Advances

The servicer must pay all out-of-pocket costs and expenses incurred in performing its servicing obligations, such as those related to the following:

- preservation and protection of the security property (see the [Property Preservation Matrix and Reference Guide](#) for additional information),
- enforcement of judicial proceedings, and
- management and disposition of acquired properties.

Funds advanced for this purpose are referred to as "servicing advances."

Servicing advances may be recovered from the borrower, insurance proceeds, claims settlements, or other available sources, except as described below. Fannie Mae will reimburse the servicer for certain unrecovered losses under the following circumstances:

- when the expense relates to protection of the security or foreclosure costs for a portfolio mortgage loan, or
- for an MBS mortgage loan serviced under the special servicing option.

Fannie Mae will not reimburse the servicer for unrecovered losses for costs, losses, or other items that the servicer agreed to hold Fannie Mae harmless against under its warranties or indemnification agreements or for advances made in connection with litigation or proceedings that Fannie Mae did not approve (if its approval was specifically required).

In no event may the servicer recover its servicing advances for a specific mortgage loan from the P&I payments for another mortgage loan or from the T&I deposits in another borrower's account.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SVC-2023-02	April 12, 2023
Announcement SVC-2022-06	August 10, 2022
Announcement SVC-2022-05	July 13, 2022
Announcement SVC-2021-06	September 8, 2021
Announcement SVC-2019-05	July 10, 2019

A2-1-02, Servicer's Duties and Responsibilities Related to MBS Mortgage Loans (12/09/2020)

Introduction

This topic contains the following:

- [Nature of the MBS Trust](#)
- [Prohibited Actions](#)
- [Servicing Requirements of MBS Mortgage Loans](#)

Nature of the MBS Trust

The MBS Trust Agreements and the Trust Indentures clarify and document the various roles and capacities of Fannie Mae, including its responsibilities regarding the servicing of MBS mortgage loans. MBS mortgage loans are subject to a Trust Indenture or a Trust Agreement. The MBS trust documents are the governing documents for a Fannie Mae MBS trust and

- include key servicing requirements;
- set forth Fannie Mae's roles as issuer, master servicer, guarantor, and trustee; and
- describe the servicer's role as the direct servicer.

Under the MBS Trust Agreements and the Trust Indentures, mortgage loans and the proceeds of those mortgage loans are held by Fannie Mae as trustee for the benefit of the MBS trusts and their beneficial owners, the MBS investors. The servicer is responsible for servicing MBS mortgage loans for the MBS trusts that own the mortgage loans.

Fannie Mae is also the master servicer for the MBS trusts, and, in that capacity, contracts with the servicer as the direct servicer and has the responsibility for assuring that servicing is performed in accordance with the Trust Agreement or the Trust Indenture, as applicable.

Daily servicing operations are performed by the direct servicers pursuant to the MSSC, the *Servicing Guide*, the MBS commitment and any other applicable agreement (such as a variance or special requirement) applicable to the purchase and servicing of mortgage loans in MBS trusts. The Trust Agreement uses the term "Servicing Contract" to refer to any of the agreements between the servicer and Fannie Mae relating to the servicing of MBS mortgage loans.

By servicing MBS mortgage loans, the servicer agrees that

- a successor to Fannie Mae as master servicer for the MBS trusts automatically will succeed to the rights of Fannie Mae under any Servicing Contract and will have authority to enforce the terms and conditions of the applicable Servicing Contract, including the authority to terminate the servicer, in accordance with the terms of the Servicing Contract, and to appoint a replacement servicer; and
- Fannie Mae as trustee, on behalf of the trusts, and Fannie Mae as guarantor are third-party beneficiaries of the Servicing Contract between that servicer and Fannie Mae as master servicer, with the authority to enforce such contract under certain conditions.

The servicer's duties and responsibilities and its obligations under the Lender Contract do not change on the basis of whether the mortgage loan is a portfolio or MBS mortgage loan. Fannie Mae has fiduciary responsibilities to MBS certificate holders, and as such it imposes certain restrictions on the servicer's authority as it relates to servicing MBS mortgage loans (some of which also may apply to mortgage loans that are not securitized).

Prohibited Actions

The servicer must not take the following actions with respect to an MBS mortgage loan:

- Sell or hypothecate the mortgage loan (or a participation interest in a mortgage loan), other than repurchasing it for its own account under the provisions of *Chapter A1-3, Repurchases, Indemnifications, and Make Whole Payment Requests*.
- Modify any of the terms of the mortgage loan (including the extension of a future advance or a release of a borrower from liability), unless either Fannie Mae agrees to a mortgage loan modification as a means of preventing foreclosure of the mortgage loan, or the servicer releases the borrower from liability in connection with an eligible property transfers as outlined in [D1-4.1-02, Allowable Exemptions Due to the Type of Transfer](#).

- Repurchase or reclassify any MBS mortgage loan for the purpose of modifying any of the terms of the mortgage loan (including the extension of a future advance or a release of a borrower from liability), or for any other reason, unless Fannie Mae specifically permits or requires repurchase or reclassification, or unless Fannie Mae specifically agrees. See [D2-3.1-02, Conditions of a First and Second Lien Mortgage Loan Modification for an MBS Mortgage Loan](#) for additional information.
- Defer the exercise of any right to accelerate the mortgage loan debt, except as is consistent with Fannie Mae's policy of considering certain types of transfers of ownership as exempt transactions or agreeing to forbearance or a repayment plan, or when considering mortgage loan modifications or payment deferrals for delinquent borrowers. See *Section D1-4.1, Information Related to Transfers of Ownership Applicable to All Mortgage Loans* for additional information.
- Exercise any "call option" provided for by the terms of a conventional mortgage loan, unless Fannie Mae normally requires such options to be exercised for mortgage loans in its portfolio. See [D1-5-01, Call Options and Cross-Default Provisions](#) for additional information.
- Release all or any portion of the property from the mortgage lien, except in accordance with the terms of the mortgage loan, an approved partial release, or under a court order or decree, and then only to the extent that Fannie Mae allows for, for mortgage loans in its portfolio.
- Accept a voluntary Mortgage Release under any conditions other than those Fannie Mae allows for, for mortgage loans in its portfolio, as described in [D2-3.3-02, Fannie Mae Mortgage Release \(Deed-in-Lieu of Foreclosure\)](#).
- Exercise any "put option" provided by a mortgage loan, such as the optional assignment of certain FHA Section 221 mortgage loans following their twentieth anniversary.
- Change an ARM index or the manner in which the index values are selected, unless specifically provided for in the mortgage loan documents. See *Chapter C-2, Servicing ARM Loans* and *Chapter A1-3, Repurchases, Indemnifications, and Make Whole Payment Requests* for additional information.

Servicing Requirements of MBS Mortgage Loans

The following mortgage loans, when securitized into an MBS pool directly from Fannie Mae's portfolio (referred to as PFP mortgage loans), must be serviced as MBS mortgage loans:

- all mortgage loans that have been sold to Fannie Mae as whole mortgage loans, and
- any MBS mortgage loan that was reclassified into Fannie Mae's portfolio.

Note: This requirement does not change the servicer's existing reporting and remitting requirements for these mortgage loans nor does it change the custodial depository requirements for the applicable remittance type under which these mortgage loans are serviced.

Fannie Mae notifies the servicer of mortgage loans that have been securitized into an MBS pool. The servicer must code all of these mortgage loans in their records as MBS mortgage loans as soon as possible and service them in accordance with the provisions of the *Servicing Guide applicable to MBS mortgage loans*.

The servicing requirements of an MBS Trust Agreement or Trust Indenture vary depending on the MBS trust documents under which a particular MBS mortgage loan was pooled. The following table describes the four categories of MBS trust documents.

Category of MBS Trust Documents	Description
1980's Indentures	The various fixed-rate or ARM Trust Indentures (each a "1980's Indenture") for MBS mortgage loan pools with issue dates up to and including May 1, 2007.
2007 Second Amended Trust Agreement	The 2007 Second Amended Trust Agreement applies to MBS mortgage loan pools with issue dates from June 1, 2007 through December 1, 2008.
2009 Amended Trust Agreement	The 2009 Amended Trust Agreement applies to MBS mortgage loan pools with issue dates from January 1, 2009 through May 1, 2016.
2016 Second Amended Trust Agreement	The 2016 Second Amended Trust Agreement applies to MBS mortgage loan pools with issue dates on or after June 1, 2016.

Not all workout options will be available for all MBS mortgage loans. Since the availability of a particular workout option for an MBS mortgage loan depends on the MBS trust documents under which that mortgage loan was pooled, the servicer must identify the issue date of the MBS in order to determine whether a workout option is available to a borrower. The use of one type or a combination of workout options is determined by facts and circumstances related to the particular mortgage loan and the borrower, as such facts and circumstances may change from time to time and include, but are not limited to:

- whether the workout option is available for the MBS mortgage loan based on which MBS trust documents apply to the MBS mortgage loan; and
- the applicable *Servicing Guide* provisions or, in the absence of *Servicing Guide* provisions, customary servicing practices of prudent servicers in servicing and administering mortgage loans for their own portfolios.

In the *Servicing Guide* or through its contracts with servicers, Fannie Mae from time to time may limit the availability and application of certain servicing terms stated in a trust document. Thus, the *Servicing Guide* may be more restrictive than the MBS trust documents with respect to servicing provisions, but neither the *Servicing Guide* nor any contractual agreement (including variances and waivers) with a servicer may be more expansive than or otherwise inconsistent with the MBS trust documents.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SVC-2020-07	December 9, 2020
Announcement SVC-2020-04	September 9, 2020

A2-1-03, Servicer's Duties and Responsibilities Related to Mortgage Loans with Resale Restrictions or Shared Equity Transactions (05/10/2023)

Introduction

This topic describes additional requirements only applicable to servicers.

- [Overview](#)
- [Servicing Mortgage Loans Subject to Resale Restrictions or Shared Equity Transactions](#)

Overview

This topic describes additional requirements only applicable to servicers.

See *Selling Guide* Section B5-5.2, Loans with Resale Restrictions and Section B5-5.3, Shared Equity Transactions for information on resale restriction mortgage loans and shared equity transactions.

Servicing Mortgage Loans Subject to Resale Restrictions or Shared Equity Transactions

The servicer must service mortgage loans subject to resale restrictions (as described in *Selling Guide* Section B5-5.2, Loans with Resale Restrictions) or shared equity transactions (as described in *Selling Guide* Section B5-5.3, Shared Equity Transactions) in accordance with this Guide, the mortgage loan documents, the recorded resale restriction agreement or shared equity transaction agreement, as applicable, and in compliance with applicable law. Any resale restrictions, including those related to a shared equity transaction, as applicable, must not impair the servicer's ability to carry out its general servicing duties and responsibilities in accordance with this Guide, including, but not limited to

- managing escrows,
- providing delinquent management and loss mitigation, and
- conducting default servicing including managing foreclosure proceedings.

The servicer must notify its Fannie Mae Servicing Representative (see [F-4-02, List of Contacts](#)) if it becomes aware of any such impairments related to a mortgage loan.

Failure by the parties to comply with any requirements of a resale restriction agreement or a shared equity transaction agreement, including, but not limited to the following, as applicable, must not impair the servicer's ability to carry out its obligations under this Guide, the mortgage loan documents, and applicable law:

- determining eligible homeowner or occupancy status,
- property maintenance and improvements,
- maintaining property and flood insurance,
- payment fees and assessments,
- determining the property value and resale price,
- transfers to eligible transferees,
- the exercise of purchase option rights, and
- providing proper notifications to the borrower or servicer.

The servicer shall have no obligation to enforce the terms and conditions of any resale restriction agreement or shared equity transaction agreement, as applicable. However, in connection with a shared equity transaction, the servicer must cooperate with the shared equity program provider in carrying out its servicing-related obligations under the *Shared Equity Amendment (Form 2200)* or the *Community Land Trust Ground Lease Rider (Form 2100)* as applicable.

Pursuant to the terms of any resale restriction agreement or shared equity transaction agreement, as applicable, the servicer shall have the right but not the obligation to work with the borrower during an event of default under such agreement in order to protect the interests of Fannie Mae. Additionally, the servicer is authorized, but not required, to participate in any arbitration or mediation between the parties to any such agreement that the servicer believes may impact the servicing of the mortgage loans as required by this Guide.

Unless the servicer has the borrower's prior written authorization, and only as permitted by applicable law, the servicer must not provide any notices required to be provided to the borrower in accordance with this Guide to any other party to the resale restriction agreement or shared equity transaction agreement, as applicable, including, but not limited to:

- notices provided in connection with early delinquency outreach and loss mitigation,
- legal notices, such as breach and acceleration letters, and
- any notice of foreclosure sale or Mortgage Release.

However, the servicer must give notices of delinquency and any other notices to the shared equity program provider in accordance with the terms of the *Shared Equity Amendment (Form 2200)* or *Community Ground Lease Rider (Form 2100)*, as applicable, for purposes of preventing any disruption to the servicer in carrying out its obligations to assist a borrower who is facing default, including offering a workout option in accordance with the Guide.

Shared Equity Transactions - Purchase Option

A shared equity program may grant a program provider or its designee a purchase option or right of first refusal option to purchase the property securing the mortgage loan in the event of a proposed transfer of the property by the borrower, upon commencement of foreclosure proceedings after the borrower's failure to resolve a delinquency including through a workout option, or upon the servicer's acquisition of the property at foreclosure sale or through a Mortgage Release, after satisfying all amounts due under the mortgage loan. Under the terms of *Shared Equity Amendment (Form 2200)*, within 60 days of foreclosure or a Mortgage Release, the shared

equity program provider must provide notice to servicer of its intent to purchase the property, and the purchase must be completed within 90 days of such notice. If the shared equity program provider fails to give such notice, or advance funds to complete the purchase, within such periods, the purchase option shall be without further effect or validity following such foreclosure or Mortgage Release. See the purchase options described in the *Shared Equity Amendment* ([Form 2200](#)) and *Community Land Trust Ground Lease Rider* ([Form 2100](#)) for additional information.

The servicer is responsible for adhering to Fannie Mae's established processes and time frames for completing routine foreclosure proceedings. See [E-3.2, Initiating and Processing Foreclosure Proceedings](#) or additional information.

Additionally, the servicer must notify Fannie Mae of the shared equity program provider's acquisition of the property pursuant to a purchase option. See [E-4.1-01, Notifying Fannie Mae of an Acquired Property](#) for additional information.

Shared Equity Transactions - Excess Proceeds

The servicer must cooperate with the shared equity program provider to pay any excess proceeds due to the shared equity program provider in accordance with the terms of the shared equity transaction agreement. Excess proceeds are any proceeds that result from an eminent domain proceeding, foreclosure sale, Mortgage Release, or other transfer of the property securing the mortgage loan after the repayment in full of all amounts due under the mortgage and otherwise satisfying any of the borrower's defined maximum resale price interest in the property as described in the shared equity transaction agreement.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SVC-2023-03	May 10, 2023

A2-1-04, Execution of Legal Documents (09/09/2020)

Introduction

This topic contains the following:

- [Overview](#)
- [Fannie Mae's Limited Power of Attorney to Execute Documents](#)
- [Correcting Conveyances to Fannie Mae](#)

Overview

The servicer ordinarily appears in the land records as the mortgagee to facilitate performance of the servicer's contractual responsibilities, including, but not limited to, the receipt of legal notices that may impact Fannie Mae's lien, such as notices of foreclosure, tax, and other liens. However, Fannie Mae may take any and all action with respect to the mortgage loan it deems necessary to protect its or an MBS trust's ownership of the mortgage loan, including recording an assignment of mortgage, or its legal equivalent, from the servicer to Fannie Mae or its designee. In the event that Fannie Mae determines it necessary to record such an instrument, the servicer must assist Fannie Mae by

- preparing and recording any required documentation, such as assignments of mortgages, powers of attorney, or affidavits; and
- providing recordation information for the affected mortgage loans.

The servicer must follow the procedures in [F-1-10, Obtaining and Executing Legal Documents](#) when sending documents for Fannie Mae's execution.

The servicer is authorized to execute legal documents related to payoffs, foreclosures, releases of liability, releases of security, payment deferrals, mortgage loan modifications, subordinations, assignments of mortgages, and conveyances (or reconveyances) for any mortgage loan for which it (or MERS[®]) is the owner of record. When an instrument of record requires the use of an address for Fannie Mae, including assignments of mortgages, foreclosure deeds, REO deeds, and lien releases, the servicer must follow the procedures in Fannie Mae Contacts for Document Execution Requests in [F-1-10, Obtaining and Executing Legal Documents](#) to locate the appropriate address.

Fannie Mae's Limited Power of Attorney to Execute Documents

When Fannie Mae is the owner of record for a mortgage loan, it permits the servicer that has Fannie Mae's LPOA to execute certain types of legal documents on Fannie Mae's behalf. The servicer must have an LPOA in place to be authorized to execute the following legal documents on behalf of Fannie Mae:

- full satisfaction or release of a mortgage or the request to a trustee for a full reconveyance of a deed of trust;
- partial release or discharge of a mortgage or the request to a trustee for a partial reconveyance or discharge of a deed of trust;
- modification or extension of a mortgage or deed of trust;
- subordination of the lien of a mortgage or deed of trust;
- completion, termination, cancellation, or rescission of foreclosure relating to a mortgage or deed of trust, including, but not limited to, the following actions:
 - the appointment of a successor or substitute trustee under a deed of trust, in accordance with state law and the deed of trust;
 - the issuance or cancellation or rescission of notices of default;
 - the cancellation or rescission of notices of sale; and
 - the issuance of such other documents as may be necessary under the terms of the mortgage,

deed of trust, or state law to expeditiously complete said transactions, including, but not limited to, assignments or endorsements of mortgages, deeds of trust, or promissory notes to convey title from Fannie Mae to the Attorney-in-Fact under this LPOA;

- conveyance of properties to FHA, HUD, the VA, RD, or a state or private mortgage insurer; and
- assignments or endorsements of mortgages, deeds of trust, or promissory notes to FHA, HUD, VA, RD, a state or private mortgage insurer, or MERS.

To request an LPOA, the servicer must follow the procedures in *Requesting a Limited Power of Attorney in F-1-10, Obtaining and Executing Legal Documents*.

If the servicer does not have an LPOA to execute documents on Fannie Mae's behalf, or has a power of attorney that does not authorize it to execute documents for a specific type of transaction, the servicer must send the documents requiring execution in any instance in which Fannie Mae is the owner of record for the mortgage loan by email, when permitted. If, however, an original document must be executed by Fannie Mae, the servicer must send the document by regular or overnight mail. The servicer must follow the procedures in Fannie Mae Contacts for Document Execution Requests in *F-1-10, Obtaining and Executing Legal Documents* for instructions in sending documents to Fannie Mae.

Correcting Conveyances to Fannie Mae

The servicer must execute a quitclaim deed for properties that have been conveyed in error to Fannie Mae. The servicer must follow all procedures in *F-1-10, Obtaining and Executing Legal Documents* when preparing the reconveyance quitclaim deed. A quitclaim deed is an instrument of conveyance of real property that passes whatever title, claim, or interest that the grantor has in the property, but does not make any representations as to the validity of such title. A quitclaim deed is not a guarantee that the grantor has clear title to the property; rather it is a relinquishment of the grantor's rights, if any, in the property. The holder of a quitclaim deed receives only the interest owned by the person conveying the deed.

Fannie Mae will execute the quitclaim deed only if the servicer has prepared the document to quitclaim or assign back to the previous grantor or assignor. The servicer must send the request for quitclaim deed execution to Fannie Mae as described in *Submitting a Reconveyance Quitclaim Deed* in *F-1-10, Obtaining and Executing Legal Documents*.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SVC-2020-04	September 9, 2020

A2-1-05, Note Holder Status for Legal Proceedings Conducted in the Servicer's Name (06/21/2017)

Introduction

This topic contains the following:

- [Overview](#)
- [Temporary Possession by the Servicer](#)
- [Physical Possession of the Note by the Servicer](#)
- [Reversion of Possession to Fannie Mae](#)

Overview

Fannie Mae is at all times the owner of the mortgage note, whether the mortgage loan is in Fannie Mae's portfolio or part of the MBS pool. In addition, Fannie Mae at all times has possession of and is the holder of the mortgage note, whether Fannie Mae has direct possession of the note or a custodian has custody of the note, except in the limited circumstances expressly described in this topic.

Temporary Possession by the Servicer

In order to ensure that a servicer is able to perform the services and duties incident to the servicing of the mortgage loan, Fannie Mae temporarily gives the servicer possession of the mortgage note whenever the servicer, acting in its own name, represents the interests of Fannie Mae in foreclosure actions, bankruptcy cases, probate proceedings, or other legal proceedings.

This temporary transfer of possession occurs automatically and immediately upon the commencement of the servicer's representation, in its name, of Fannie Mae's interests in the foreclosure, bankruptcy, probate, or other legal proceeding.

When Fannie Mae transfers possession, if the note is held by a document custodian on Fannie Mae's behalf, the custodian has possession of the note on behalf of the servicer so that the servicer has constructive possession of the note and the servicer shall be the holder of the note and is authorized and entitled to enforce the note in the name of the servicer for Fannie Mae's benefit.

If the servicer determines based on state law that it needs to be the holder of an eNote prior to representing the interests of Fannie Mae in a foreclosure, bankruptcy, or other legal proceeding, the servicer must follow the procedures in *Foreclosure, Bankruptcy and Other Legal Proceedings* in [F-1-26, Servicing eMortgages](#) to request a transfer in control and location from Fannie Mae.

Physical Possession of the Note by the Servicer

In most cases, the servicer will have a copy of the mortgage note. If the servicer determines that it needs physical possession of the original mortgage note to represent the interests of Fannie Mae in a foreclosure, bankruptcy, probate, or other legal proceeding, the servicer may obtain physical possession of the original mortgage note by submitting a request directly to the document custodian.

If Fannie Mae possesses the original note through a third-party document custodian that has custody of the note, the servicer must submit a *Request for Release/Return of Documents* ([Form 2009](#)) to Fannie Mae's custodian to obtain the note and any other custodial documents that are needed.

In either case, the servicer must specify whether the original note is required or whether the request is for a copy.

For eMortgages, if the eNote is not acceptable in its electronic form for a foreclosure, bankruptcy, or other legal proceeding, the servicer is authorized to use a printed Authoritative Copy of the eNote for the legal proceeding or action.

Reversion of Possession to Fannie Mae

At the conclusion of the servicer's representation of Fannie Mae's interests in the foreclosure, bankruptcy, probate, or other legal proceeding, or upon the servicer ceasing to service the loan for any reason, possession automatically reverts to Fannie Mae, and Fannie Mae resumes being the holder for itself, just as it was before the foreclosure, bankruptcy, probate, or other legal proceeding. If the servicer has obtained physical possession of the original note, it must be returned to Fannie Mae or the document custodian, as applicable.

Recent Related Announcements

There are no recently issued Announcements related to this topic.

A2-1-06, Use of Fannie Mae Trademarks (08/16/2017)

For a list of trademarks currently used by Fannie Mae and requirements on how to refer to them, see *Selling Guide* A2-5-01, Fannie Mae Trade Name and Trademarks and [Fannie Mae's website](#).

Recent Related Announcements

There are no recently issued Announcements related to this topic.

A2-1-07, Subservicing (12/08/2021)

Introduction

This topic contains the following:

- [Overview](#)
- [Requirements for Subservicing Arrangements](#)
- [When Post-Delivery Transfers of Servicing Involve Subservicers](#)

Overview

The servicer may use other organizations to perform some or all of its servicing functions on its behalf. Fannie Mae refers to these arrangements as “subservicing” arrangements, meaning that the servicer (the “subservicer”) other than the contractually responsible servicer (the “master” servicer) is performing the servicing functions.

The following are not considered to be subservicing arrangements:

- when a computer service bureau is used to perform accounting and reporting functions, and
- when the originating seller/servicer sells and assigns servicing to another seller/servicer, unless the originating seller/servicer continues to be the contractually responsible servicer.

Requirements for Subservicing Arrangements

The servicer may use a subservicer only if it will not interfere with the servicer’s ability to meet Fannie Mae’s remitting and reporting requirements.

The master servicer may not enter into new subservicing arrangements or extend existing arrangements to include newly originated mortgage loans, unless both the master servicer and the subservicer are Fannie Mae-approved servicers in good standing who are able to perform the duties associated with the master servicer/subservicer arrangement.

The master servicer must ensure that its written agreement with the subservicer acknowledges Fannie Mae’s right to rescind its recognition of the subservicing arrangement if Fannie Mae decides to transfer the master servicer’s portfolio for any reason.

The master servicer is not required to submit each separate subservicing arrangement under an existing subservicing agreement to Fannie Mae for its approval. However, if the arrangement is a new one, the subservicer must submit the applicable *Letter of Authorization for P&I Custodial Account* ([Form 1013](#)) for a P&I custodial account and *Letter of Authorization for T&I Custodial Account* ([Form 1014](#)) for a T&I custodial account indicating that it has established the required custodial accounts and submit these forms electronically to Fannie Mae’s Custodial Accounting Team (see [F-4-02, List of Contacts](#)).

Even if a subservicing arrangement is known, approved of, or consented to by Fannie Mae, the master servicer remains fully liable to Fannie Mae for the performance of all servicing obligations. Fannie Mae may enforce any rights and remedies it may have against the master servicer for breach of the servicing obligations, whether such breach was caused by the master servicer or by the subservicer. In addition to the foregoing and not in limitation thereof, Fannie Mae also may enforce any rights and remedies it may have against the subservicer for breach of the servicing obligations (see [A2-7-03, Post-Delivery Servicing Transfers](#)).

The master servicer must confirm its existing subservicing arrangements when it submits the *Lender Record Information* ([Form 582](#)) each year.

The following table describes requirements, pursuant to the MSSC and the Guides, of a subservicing arrangement.

✓	When a master servicer enters into a subservicing arrangement with respect to all related mortgage loans...
	<p>The master servicer and the subservicer must execute and submit the <i>Data Access Authorization Form</i> (Form 101) at the inception of the subservicing arrangement.</p> <p>Note: Each mortgage loan that is subject to a subservicing arrangement must be identified in Fannie Mae's records. The master servicer and the subservicer must also execute and submit Form 101 at the termination of the subservicing arrangement.</p>
	<p>The master servicer represents and warrants to Fannie Mae that the subservicer will service those mortgage loans in accordance with all Fannie Mae requirements.</p>
	<p>The subservicer must</p> <ul style="list-style-type: none"> • be approved by Fannie Mae to service special products, if applicable, unless the special product is <ul style="list-style-type: none"> ◦ an eMortgage; or ◦ a HomeStyle Renovation mortgage loan, for which the subservicer does not perform the responsibilities outlined in D1-2-01, Renovation Mortgage Loans. • continue the subservicing of Fannie Mae mortgage loans until an acceptable disposition of the subserviced portfolio is reached; • ensure it has the necessary resources to appropriately support the subserviced portfolios and to govern the required interaction with the master servicer and service level agreements; • remove funds from P&I, T&I, or other custodial accounts only as allowed by the <i>Servicing Guide</i>; • disclose any and all Fannie Mae assessments or reviews to the master servicer upon request by the master servicer; and • disclose to Fannie Mae if it discovers that it and/or the master servicer is in material breach of the Lender Contract or subservicing arrangement in connection with the Fannie Mae subserviced loans, or has been subject to any material legal, regulatory or administrative proceeding or order relating to the subservicing arrangement or Fannie Mae subserviced loans.

✓	<p>When a master servicer enters into a subservicing arrangement with respect to all related mortgage loans...</p>
	<p>The subservicer and master servicer of eMortgages must jointly develop policies and procedures to address servicing functions which include, but are not limited to, mortgage payoffs, modifications to an eNote, foreclosure, bankruptcy, and other legal proceedings.</p>
	<p>The master servicer of eMortgages must agree to perform any Fannie Mae and MERS requirements which the subservicer is unable to perform.</p>
	<p>The subservicer agrees with Fannie Mae to service those mortgage loans in accordance with all Fannie Mae requirements.</p>
	<p>The master servicer must</p> <ul style="list-style-type: none"> • maintain policies and procedures to evaluate the subservicer's compliance and performance with the master servicer's Lender Contract, which includes, without limitation, the <i>Servicing Guide</i>; and • maintain policies and procedures for selecting and assessing a subservicer. <p>Note: The master servicer must make any of the above documentation available to Fannie Mae upon request.</p>
	<p>The master servicer and subservicer each represent and warrant to Fannie Mae that</p> <ul style="list-style-type: none"> • the provisions of any agreement between the originating lender, the transferor servicer, and any other party providing for servicing those mortgage loans will not continue after the date on which Fannie Mae funds the whole loan delivery or issues the MBS with respect to those mortgage loans, except as the subservicing agreement between the master servicer and the subservicer; and • the subservicing agreement does not conflict with Fannie Mae's servicing requirements.
	<p>The master servicer and the subservicer must</p> <ul style="list-style-type: none"> • provide copies of the subservicing agreement and the master servicer's audits and QC reviews of the subservicer's performance under the subservicing arrangement upon request from Fannie Mae; and • maintain policies and procedures for monitoring compliance in accordance with the <i>Servicing Guide and performance of outsource vendors, including services performed outside the United States</i>.
	<p>The master servicer and its subservicers may negotiate the servicing fees that the subservicers will receive. The master servicer's and the subservicer's rights to receive the servicing fee and subservicing fee will be terminated if Fannie Mae transfers the servicing portfolio for any reason.</p> <p>Note: Fannie Mae will not pay the master servicer or subservicer any servicing compensation or other fees that may be payable under a subservicing arrangement.</p>

✓	When a master servicer enters into a subservicing arrangement with respect to all related mortgage loans...
	Each subservicer must establish custodial accounts for all Fannie Mae mortgage loans that it subservices for a master servicer. Funds for MBS pools and for portfolio mortgage loans cannot be commingled in the same custodial account. A subservicer's custodial accounts related to mortgage loans it is servicing for the master servicer must be separate from any other accounts it maintains for mortgage loans it services directly for Fannie Mae or for any other investor, including other mortgage loans (which are not Fannie Mae mortgage loans) that it services for the master servicer.
	The master servicer must report to Fannie Mae under the correct remittance type and must ensure that Fannie Mae receives the proper remittance amount regardless of whether the master servicer allows the subservicer to report activity to the master servicer under a different remittance type.
	The master servicer must remit to Fannie Mae all mortgage loan funds in sufficient time to ensure that Fannie Mae receives the correct remittance amount when it is due, regardless of any arrangement the master servicer and subservicer have to accept collections from the subservicer at a later date. If the subservicer uses a remittance date that is later than the one Fannie Mae prescribes, the master servicer must advance any funds necessary.

When Post-Delivery Transfers of Servicing Involve Subservicers

As required in [A2-7-03, Post-Delivery Servicing Transfers](#), the servicer must obtain Fannie Mae's prior written consent for any transfer of servicing responsibilities involving Fannie Mae mortgage loans. Fannie Mae's prior written consent is required for all servicing transfers involving a subservicer, including a transfer of servicing responsibilities from

- one subservicer to another,
- the master servicer to a subservicer, or
- the subservicer to the master servicer.

The transferor servicer must indicate on the *Request for Approval of Servicing Transfer* ([Form 629](#)) if the transferee servicer will use a subservicer as a result of the servicing transfer. Both the transferee servicer and the subservicer must execute [Form 101](#) at the inception and the termination of the subservicing arrangement.

As part of its review of the transfer of servicing review, Fannie Mae will also evaluate the performance and capacity of any subservicer the transferee servicer intends to utilize. See [A2-7-03, Post-Delivery Servicing Transfers](#) for additional information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SVC-2021-09	December 8, 2021
Announcement SVC-2021-07	October 13, 2021

A2-1-08, First Lien Mortgage Loan Requirements (11/12/2014)

Introduction

This topic contains the following:

- [Coordination with First Lien Mortgage Loan Servicer](#)
- [Required Advances for Second Lien Mortgage Loans](#)
- [Subordination of Second Lien Mortgage Loan](#)

Coordination with First Lien Mortgage Loan Servicer

The servicer of a second lien mortgage loan is responsible for coordinating with the servicer of the first lien mortgage loan on any actions it takes to protect Fannie Mae's or an MBS trust's investment and, if necessary, advance funds to protect that investment.

The servicer must send a written notice of Fannie Mae's ownership interest to the servicer of the first lien mortgage loan as soon as Fannie Mae purchases or securitizes the second lien mortgage loan. This notice must include a request for the first lien mortgage loan servicer to provide immediate notice to the second lien mortgage loan servicer of any event or situation that might jeopardize Fannie Mae's or an MBS trust's investment in the second lien mortgage loan.

This close coordination should continue through the disposition of an acquired property or satisfaction of the mortgage loan debts.

The servicer of the second lien mortgage loan must work with the first lien mortgage loan servicer to identify specific servicing responsibilities that might be more effective if they were shared or handled by only one servicer instead of by the two servicers acting independently. Any agreement that is reached must concentrate on eliminating duplication of effort and avoiding unnecessary expenses. Both servicers must have a clear understanding of their specific responsibilities.

Required Advances for Second Lien Mortgage Loans

The servicer of a second lien mortgage loan must advance reasonable amounts for expenditures that are

required to protect Fannie Mae’s investment in the second lien mortgage loan regardless of whether the mortgage loan is current or delinquent. These advances usually relate to the second lien mortgage loan, but occasionally they may be required for the first lien mortgage loan. The servicer must document the individual mortgage loan file to support fully the need for the advance.

Among other things, the servicer may be required to advance funds for

- the payment of real estate taxes and/or property or flood insurance premiums,
- property management expenses,
- maintenance,
- repairs,
- prevention of waste, and
- capital improvements to the property.

The servicer must advance funds to reinstate or satisfy the first lien mortgage loan with conventional MI if required by the mortgage insurer as a condition for claim filing.

Advances for Second Lien Mortgage Loans: Whenever the servicer advances funds for the protection of the security, appropriate arrangements should be made for the borrower to repay the advance. If the mortgage loan is current and the borrower cannot or will not repay the advance in a lump-sum payment or in installments, the servicer may make the advance, as described in the following table.

If the second lien mortgage loan is a...	And...	Then the servicer...
portfolio mortgage loan	the mortgage loan instrument, local laws, and government regulations allow the capitalization of advances	should capitalize its advance by: 1. increasing the UPB by the amount of its advance, and then 2. requesting that Fannie Mae reimburse it for Fannie Mae’s share of the advance, via <i>request for expense reimbursement</i> .
	the mortgage loan instrument, local laws, or government regulations do not allow the capitalization of advances	should request that Fannie Mae reimburse it for Fannie Mae’s share of the advance, via <i>request for expense reimbursement</i> .
MBS mortgage loan	the mortgage loan instrument, local laws, and government regulations allow the capitalization of advances	may apply subsequent mortgage loan payments against the advance.

If the mortgage loan is delinquent, the servicer should arrange for the borrower to repay the advance, either in installments, or as part of the full amount required to reinstate the mortgage loan. If the mortgage loan is subsequently foreclosed and the borrower had not repaid the advance, Fannie Mae will reimburse the servicer for Fannie Mae's share of the advance when

- the acquired property is sold, unless the mortgage loan is an MBS mortgage loan serviced under the regular servicing option, or
- the insurance claim is settled if the mortgage loan is insured by a conventional mortgage insurer.

Advances for the First Lien Mortgage Loan: Whether the servicer of the second lien mortgage loan is required to advance funds for the protection of the secured property depends on the conditions described in the following table.

If Fannie Mae...	Then the servicer of the second lien mortgage loan...
holds both the first and second lien mortgage loans	does not need to advance funds for the protection of the security, although it may have to advance funds to reinstate or pay off the first lien mortgage loan in connection with the second lien mortgage loan foreclosure.
does not hold the first lien mortgage loan	must advance funds to pay delinquent payments, taxes, property or flood insurance premiums, and any other charges related to the first lien mortgage loan if that is required to protect Fannie Mae's investment.

The servicer must obtain approval from its Fannie Mae Servicing Representative (see [F-4-02, List of Contacts](#)), even when Fannie Mae holds the first lien mortgage loan, before it advances funds to pay more than three monthly installments, to pay off the first lien mortgage loan, or to pay any expense if its advances for the first lien mortgage loan have reached \$7,500.

To request reimbursement for Fannie Mae's share of any advances made on the first lien mortgage loan, the servicer of a portfolio mortgage loan or MBS mortgage loan serviced under the special servicing option must submit a *request for expense reimbursement to Fannie Mae*.

Subordination of Second Lien Mortgage Loan

When a first lien mortgage loan is being refinanced, the second lien mortgage loan holder may be asked to execute a subordination agreement, which keeps the second lien mortgage loan in its original lien position even though it will predate the new first lien mortgage loan. The servicer should restrict the degree of subordination as much as possible.

The servicer may consider the following guidelines when evaluating a subordination offer.

If Fannie Mae...	Then the servicer...
is not providing the funds to refinance the first lien mortgage loan	<p>should agree to subordinate Fannie Mae's interest only if the combined unpaid balances of the second lien mortgage loan and the new first lien mortgage loan represent 80% or less of the current appraised value of the property.</p> <p>The servicer may require that a portion of the proceeds from the refinancing be applied to reduce the unpaid balance of Fannie Mae's second lien mortgage loan.</p>
is providing the funds to refinance the first lien mortgage loan	<p>should consolidate the first and second lien mortgage loans or work to ensure the second lien is paid in full. Otherwise, the servicer may agree to subordinate Fannie Mae's interest as long as the combined unpaid balances of the second lien mortgage loan and the new first lien mortgage loan do not exceed Fannie Mae's underwriting guidelines for single-family first lien mortgage loans and represent 80% or less of the current appraised value of the property. To meet these requirements, it may be necessary to apply funds toward the reduction of the second lien mortgage loan debt, reduce the amount of the new first lien mortgage loan, or both.</p>

When a borrower who has an FHA Title I home improvement loan refinances their existing first lien mortgage loan to obtain a lower interest rate or a longer term, the servicer may agree to subordinate the Title I loan to the new refinance mortgage loan (without obtaining Fannie Mae's or FHA's prior written consent) as long as the amount of the new refinanced mortgage loan is not greater than the sum of the existing first lien mortgage loan and reasonable financing or closing costs. If the borrower is refinancing for any other reason, the servicer must obtain FHA's written authorization to subordinate the Title I loan to the new first lien mortgage loan in order to ensure that the security value of the Title I loan is not impaired or reduced.

A2-1-09, Compliance with Requirements and Laws (04/12/2023)

See the *Selling Guide* for the following requirements:

- *Selling Guide* A3-2-01, Compliance with Laws for requirements related to general information on compliance with laws, reporting requirements, and data breach incident requirements.
- *Selling Guide* A3-4-01, Confidentiality of Information for requirements related to the use and handling of confidential information.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SVC-2023-02	April 12, 2023
Announcement SVC-2022-01	February 9, 2022
Announcement SVC-2018-01	February 14, 2018

Chapter A2-2, Refinance and Lending Practices

Introduction

This chapter contains information on refinance lending practices.

A2-2-01, Refinance and Lending Practices (02/14/2018)

See the *Selling Guide* for the following requirements:

- *Selling Guide* A3-2-02, Responsible Lending Practices for responsible lending policies and underwriting standards.
- *Selling Guide* B2-1.3-04, Prohibited Refinancing Practices for policies on questionable and prohibited refinancing.